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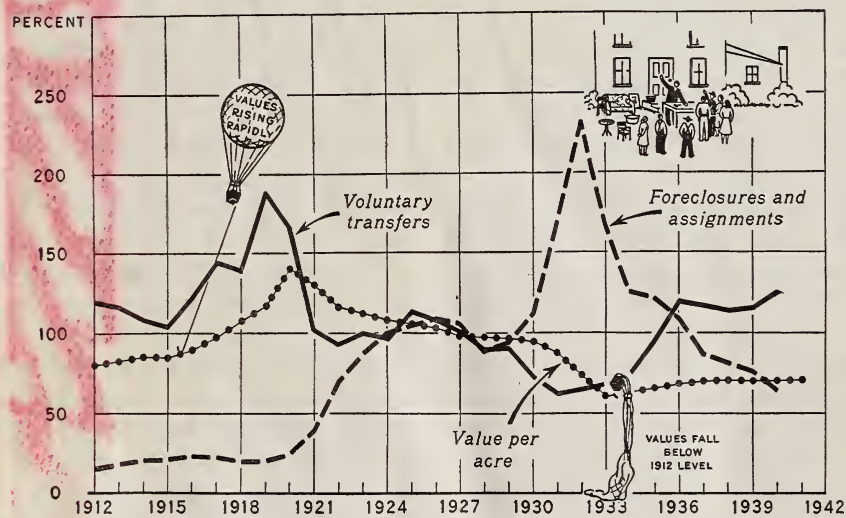
The Farmer and the War No. 1

Farm Land Values and the War



Index numbers (1925–29=100)

Volume of foreclosures and assignments, voluntary transfers, and value per acre of farm real estate in the United States, 1912–41

FARMERS in this country for a quarter of a century have associated land booms with war. They feel, and rightly, that the general upsurge in land values during and after the last war was responsible for many of the ills of agriculture. They fear a repetition of this boom, and many of them are beginning to feel, again rightly, that it need not happen again. Now that the Nation again is engaged in a great war, farmers are watching developments in land values and are comparing them with what happened during the last war.

We can look back today with a hindsight that is naturally much better than the foresight of farmers 20 years ago. We can appreciate better some of the causes of land booms, and can evaluate more care-

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43

fully most of the consequences. Although hindsight enables us to say now that we should have known better then, we must remember that many of the factors we now take into account in looking at land values did not become apparent until long after the value upsurge.

In view of the obvious factors influencing values at that time, it cannot be said that farmers generally did not act according to the logic of their situation. On the contrary, their previous experience had given them great confidence in the security and liquidity of land investments with ownership risks minimized.

At the time the United States entered the first World War, land values had risen steadily since 1900. In many of the principal farming areas, a marked decline in values was unknown. The generally accepted explanation was that the frontier was gone and there was only a limited supply of land for an increasing population. Obviously, other things being equal, this combination would result in continuously higher prices of farm commodities, and correspondingly higher land values. "Farm land is just as good as a gold bond with diamonds in the corner," one Iowa farmer reported to the Department of Agriculture.

Because they were confident that land was a good investment, owners accepted low rates of current return; their capital investment was increasing, they were building up estates. Moreover, farms could be readily sold and credit difficulties were rare. Even poor managers could succeed, for if they did get into difficulties, they could sell their farms—usually at a profit.

Such was the land-value setting when the war caused great increases in farm commodity prices. Beginning in 1916, agricultural prices rose rapidly. Cash farm income mounted; in 1916 up 29 percent from 1914, in 1917 up 77 percent, in 1918 up 124 percent, in 1919 up 140 percent from 1914.

At first, land values responded cautiously to the increases in commodity prices and income. By March 1916, values were up only 5 percent from the pre-war average. But, thereafter, values increased more rapidly, rising 8 to 10 percent each year, until the boom year of 1919.

"It was a matter of much surprise to many observers during 1917 and 1918," Dr. B. H. Hibbard of the University of Wisconsin wrote in 1920, "to see land producing $50 worth of crop and yet selling for $250 per acre. There were cases much more extreme than this. There were fields of large size in the Corn Belt yielding a full hundred dollars' worth of crop, yet the farms of which they were a part were selling for less than $300 per acre. It seemed absurd, and it was. But which was absurd, the $2 corn and the $20 hogs, or the $250 land? While the war was on, the popular view was that the prices of produce were out of line and would quickly come back to normal."

During 1917 and 1918, conditions were more and more favorable to rapid farm real estate rises, as well as increased sales activity. Current farm earnings were substantial and the ratio of land earnings to

values was materially higher than that prevailing before the war. Farm prices and gross income had increased more rapidly than expenses, so both tenants and owners had money to invest in lands. At the same time, the high farm earnings encouraged nonfarmers to invest their money in land.

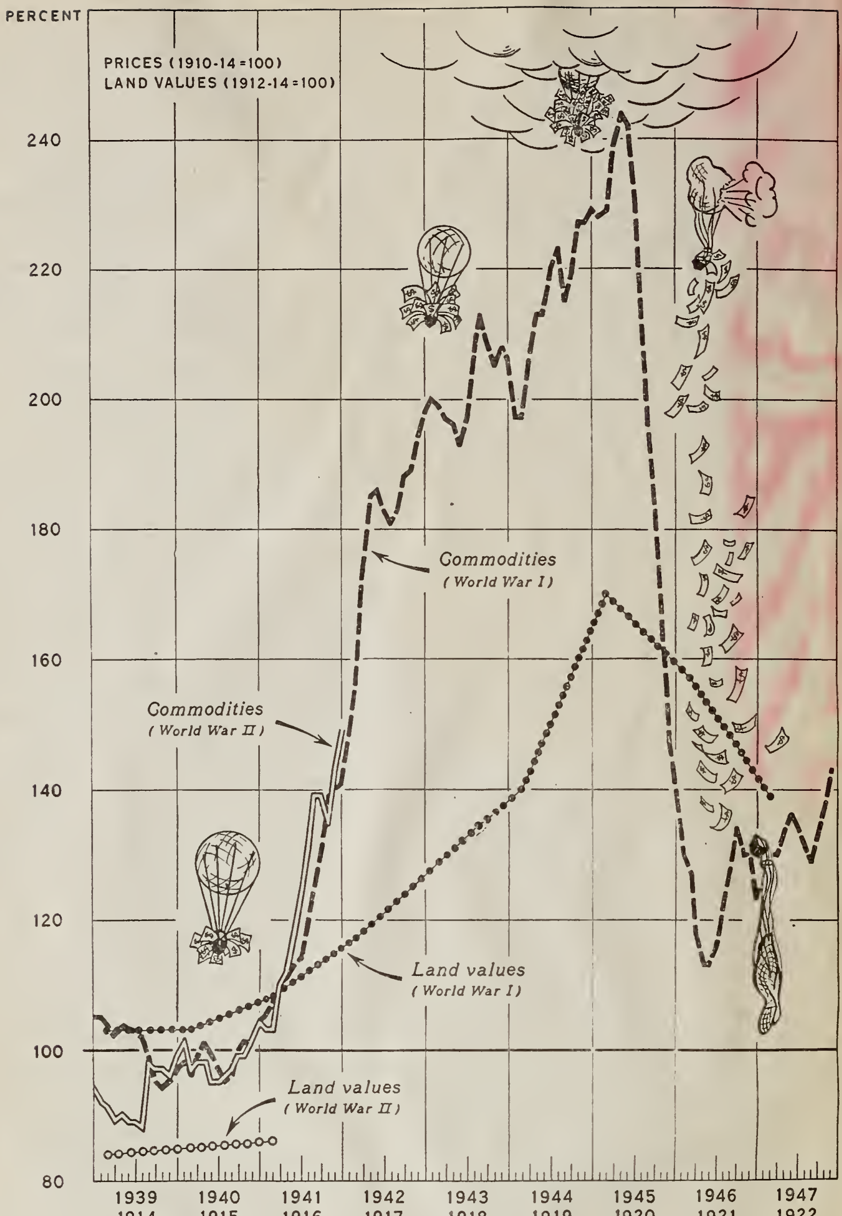
After the Armistice, when prices continued at high levels, there was a feeling that the high levels represented the new normal level; that prices would remain up for an extended period of time. And, as Dr. Hibbard said, "In consequence, the price of land responded in a way that makes the Arabian Nights seem tame."

With the close of the war and the return of soldiers, many farmers who wanted farms for their sons took their funds out of other investments, including Liberty Bonds, and bought land. Speculators also entered into the land market and bought to sell for profit. They were relatively uninterested in the earning capacity of the land. Activities of the speculators cannot be blamed for causing the boom, but they did intensify the upsurge in values. At the same time, rumors spread regarding the great profits to be made by land investments. Some bought farms on narrow margins. Farmers even bid against each other, for the popular feeling was that it was necessary to buy quickly, even at a very high price, if a man was going to get a farm. In no time at all, many farmers in boom areas were selling at prices completely out of line even with abnormally high current earnings.

From March 1, 1919, to March 1, 1920, land values rose in all States—an average of more than 20 percent. Even New Englanders bid up the value of farm lands about 14 percent. Values increased approximately 25 percent in the South Atlantic, South Central, and West North Central States. In South Carolina, values rose 42 percent, and in the Corn Belt, increases ranged from 18 percent in Ohio to more than 33 percent in Iowa. By 1920, values for the country as a whole were 65 percent above those of 1914.

The number of voluntary transfers for the country was 35 percent greater in 1919 than in 1918, and 75 percent greater than in 1914. But the significance of the boom is not limited to the farms actually transferred during the boom year. For example, only 10 percent of the Iowa land was transferred during the boom of 1919–20. Other farmers, who did not participate in sales, increased their mortgage debts. State, county, and local governments also increased their indebtedness. Many farmers gained paper profits so they spent more on improvements both for their farms and for public properties. They contracted short-term debts for consumption goods, as well as for production activities. They incurred long-term debts for the purpose of making improvements.

The total farm-mortgage debt grew from \$3,208,000,000 on January 1, 1910, to \$8,449,000,000 on January 1, 1920. At the same time, taxes per acre were almost 2½ times the levels prevailing during the pre-war years. Then, in the summer of 1920, commodity prices crashed, and



Land values and prices received by farmers for commodities during World War I and to date in World War II.

income dropped sharply. Many farmers who had bought farms at high prices were forced to turn them back to their original owners and to lose the down payments, which in the Corn Belt frequently amounted to as much as $10,000. Many farmers were unable to meet their short-term obligations out of current income and were forced to convert such debts into long-term mortgages, which reached their peak in 1922—$10,785,000,000.

Immediately after the crash, farmers hoped that somehow prices would rise again, so they were unwilling at first to write off their capital losses in land values. To do so meant more to many farmers than merely writing off a paper profit; it meant losing their farms.

After a few years of lower price levels, however, farmers did begin to think that a new price level, definitely below the war, was in prospect. They began to realize that a readjustment in land values was unavoidable. Land values therefore declined rapidly until 1925, after which the declines year by year were more gradual. By 1930, values apparently had become adjusted to post-war price levels.

In the adjustment of values, equities in farms melted away.

On many farms, debt-service costs gobbled up much of the income, so that living standards suffered, but often this merely postponed the inevitable reckoning. During the middle 1920's, foreclosure rates reached a level five times higher than before the war.

As a matter of fact, farm prices and incomes were relatively favorable to agriculture during the middle and later twenties. In each year from 1924 to 1929, the average per capita farm cash income was higher than for 1917, and was almost double that for the period 1910–14. Of course, farmers paid more in the twenties for the commodities they bought than they had before the war, but a major difficulty was the high level of land costs that remained after the boom period.

Unprecedentedly low commodity prices during the great depression of the thirties made necessary the second complete land-value adjustment within a decade. Many equities that were crumbling in the late twenties vanished. Other equities that had appeared fairly safe were swept away. Prices and income were so low that it was frequently impossible to meet interest and taxes out of current income. Approximately 50 percent of the outstanding loans by the Federal Land Bank were either delinquent or had been extended in 1933. Other lending agencies were experiencing similar difficulties. Foreclosures by all lenders reached a peak in 1932 that was more than double the level in the middle twenties and more than 10 times higher than before the war. Forfeitures of land because of tax delinquencies and delinquencies on current tax levies were more than three times those of the middle twenties.

By 1932, many State legislatures had instituted moratoria of debt foreclosures. To prevent wholesale loss of land due to debt delinquency, the loan policies of the Farm Credit Administration were revised. At

Each symbol represents 200 bushels

Number of bushels of corn required to pay interest and taxes on a 160-acre Iowa farm, which was mortgaged for $75 an acre, at prices received for the corn crops of 1919, 1925, and 1932

the same time, the Agricultural Adjustment Administration contributed to an improvement in the income situation of farmers.

Although land values in March 1942 for the country as a whole were 7 percent higher than a year earlier, recovery since 1933 has been generally moderate. Foreclosure and other distress transfers are now lower than they have been for nearly 20 years, and voluntary sales are more frequent than they have been since the last war. In general, farm real estate market conditions appear to be in a sounder position now than at any time since before the last war.

But it has taken nearly 25 years for the consequences of the upsurge in land values that accompanied World War I to run their course. That upsurge, we see now, was unjustified when it pulled land values to a level higher than earnings could pay for over a long period. Now we know and can evaluate its direct consequences—excessive debt foreclosures, reduced living standards, and deterioration of land and buildings.

Now, we are on the threshold of the period in which we will determine the ultimate consequences of that upsurge in values. If the land-value experience of the last quarter century has impressed farmers enough to enable them to avoid even a partial repetition of that experience, then the ultimate consequences will go far towards offsetting the direct consequences.

Land values can be kept stable during this new war if the lessons of the upsurge after the last war are not forgotten. It may be possible, of course, that we shall be taken off guard if we look for the same factors to arise, but, if we are not gullible we can avoid new developments catching us unawares.

We need to emphasize the long-run earning power of the land, to avoid overemphasizing current returns. Land must be paid for out of income 10 and 20 years from now, as well as this year. We need to keep in mind the risks and uncertainties that may determine or influence future income—we need to realize fully the futility of bidding up the price of a more or less fixed supply of land. We need to appreciate the way in which too high land-value levels cut down on the living standards of farm people.

Land-value stability is an essential to agricultural security. The purpose of many aspects of the Na-

tion's wartime program is to insure future stability for both agriculture and industry. Farmers have a vital role, as well as a personal stake, in the success of these activities, such as the efforts of the Federal Government to curb inflation, to control prices, to adhere to sound credit policies.

By their individual activities, farmers can contribute greatly to the Nation's stability. They can use their higher incomes to pay off their debts and to buy Defense Bonds. If, by any chance, land values should rise unreasonably in some local areas, farmers can avoid participation in the land market. Tenants in these areas can wait to buy farms until land values are reasonable again. And owners can keep their present farms, rather than sell these farms to buy new ones; they can decline to mortgage their present farms to buy additional land.

By saving their incomes now, in the form of debt payments or Defense Bonds, farmers will be setting aside a reserve that can be drawn upon during possible "rainy days."

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